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W20r  
2000

Completely compatible  
for all Montana Businesses  
that value employee safety

With better  
customer service  
features

MONTANA  
STATEFUND  
APPROVED

# MONTANA STATEFUND 2000 upgrade

- Now featuring a stronger staff in Safety Management, Medical Case Management and Quality Assurance
- Partnerships with local agents across Montana

**M**

Annual rates lowered or unchanged  
for the 7th consecutive year

**D**

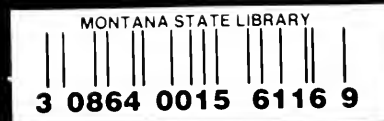
Dividends returned for the  
2nd consecutive year

**EXCEPTIONAL  
VALUE!**

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**MONTANA'S INSURANCE CARRIER OF CHOICE AND INDUSTRY LEADER IN SERVICE.**

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A MESSAGE FROM OUR CHAIRMAN AND PRESIDENT

# IT IS OUR PLEASURE TO BRING YOU

The first year of the new millennium was another successful one for the Montana State Fund (MSF). This report highlights noteworthy achievements and milestones.

We are proud to enter the 21st Century as a customer-focused organization fulfilling our mission as Montana's workers' compensation insurance carrier of choice and industry leader in service. As you will discover in this report, we have undertaken many initiatives to ensure that we fulfill this mission today and long into the future.

## **REDESIGN INITIATIVE**

Perhaps most important for fiscal year 2000 was our major organizational redesign project that began in February. Although this landmark project will be discussed in detail later in this report, it is important to note here that the project was developed by employees and driven by our customers' needs, wants and expectations. It is one of the most significant events in MSF's history, and has created an open environment of multi-functional teams whose sole commitment is to provide exemplary service to our customers and their employees.

The "go-live" date for our new organization was November 8, 2000, and we are already beginning to see positive results. We are confident that the new Montana State Fund, created as a result of the redesign project, will provide exceptional service to

Montana businesses for many years to come.

## **FINANCIAL STRENGTH**

The State Fund completed the fiscal year with a statutory net income before dividend of \$12.3 million. A dividend of \$7 million was declared by the MSF Board on a combined ratio (the ratio of losses, expenses and dividend to earned premium) of 135.5%. This compares favorably to reports by the National Council on Compensation Insurance which show that private carriers in Montana had an average combined ratio of 167% for calendar year 1999. Our statutory surplus was \$138.8 million, compared with \$133.5 million a year ago. As with all insurance companies, an adequate surplus is necessary to ensure financial and operational stability for the long term. Our earned premium was \$70.7 million compared to \$70.2 million in fiscal year 1999. Our market position has stabilized after several years of declining premium as a result of a competitive market.

In April the Board declared a policyholder dividend of \$7 million. Combined with last year's \$10 million dividend, \$17 million has been returned to our customers in just two years. In addition, over the last four years, the State Fund has returned \$1.6 million to policyholders through group retrospective and retention plans.

This year, our Board of Directors voted for no change in manual

# THIS ANNUAL REPORT FOR FISCAL YEAR 2000.

rates for policyholders effective July 1, 2000. This is the seventh year in a row that manual rates have declined or remained the same. Although we cannot determine the precise impact on Montana's economy from the many millions of dollars that have remained in business owners' pockets from these dividends and rate determinations, we can assume that employers were able to use these funds for business expansion and growth, resulting in a stronger business environment, more available jobs, and higher wages for employees.

## MARKET TRENDS

Even as we celebrate these encouraging events, we must also take a hard look at the future of the workers' compensation market nationally and here in Montana. According to the Workers' Compensation Outlook, recent national trends and reports indicate that loss costs are rising and profitability is decreasing. These same trends are appearing in Montana, as private carriers see increasing accident year combined ratios and declining profitability.

These trends signal a firming market, and Montana and other states are already experiencing increasing workers' compensation premium costs. The principal cost drivers are indemnity and medical inflation, claims frequency, benefit levels, court determinations and fraud. You can be assured, however, that MSF will continuously strive to achieve the

greatest possible efficiencies through innovative underwriting practices, effective claim management, strong safety efforts, and aggressive fraud prevention and recovery programs. This year, we have strengthened our core functions and have doubled our safety and medical case management staff. Our commitment to assisting you with containing losses has never been greater.

## OTHER ACTIVITIES

We are once again very proud of our State Fund employees who have worked so hard to develop and increase efficiencies and service improvements for our customers. Many employees were actively involved in our redesign project, and it was their dedication and foresight that helped create the new structure that exists today. Our employees not only work hard at the office each day, but also are committed to their community and state. This was shown by another successful annual giving campaign where employees gave nearly \$18,000 of their own money to support charitable organizations serving communities across Montana.

Finally, we wish to recognize the tremendous efforts of our governor, legislators and other elected officials who have stepped forward to assist MSF over the past decade. Because of Montana's term limit law, many of these fine individuals left public service at the end of the year, but they leave an

impressive legacy of a successful State Fund that will carry on for many years to come.

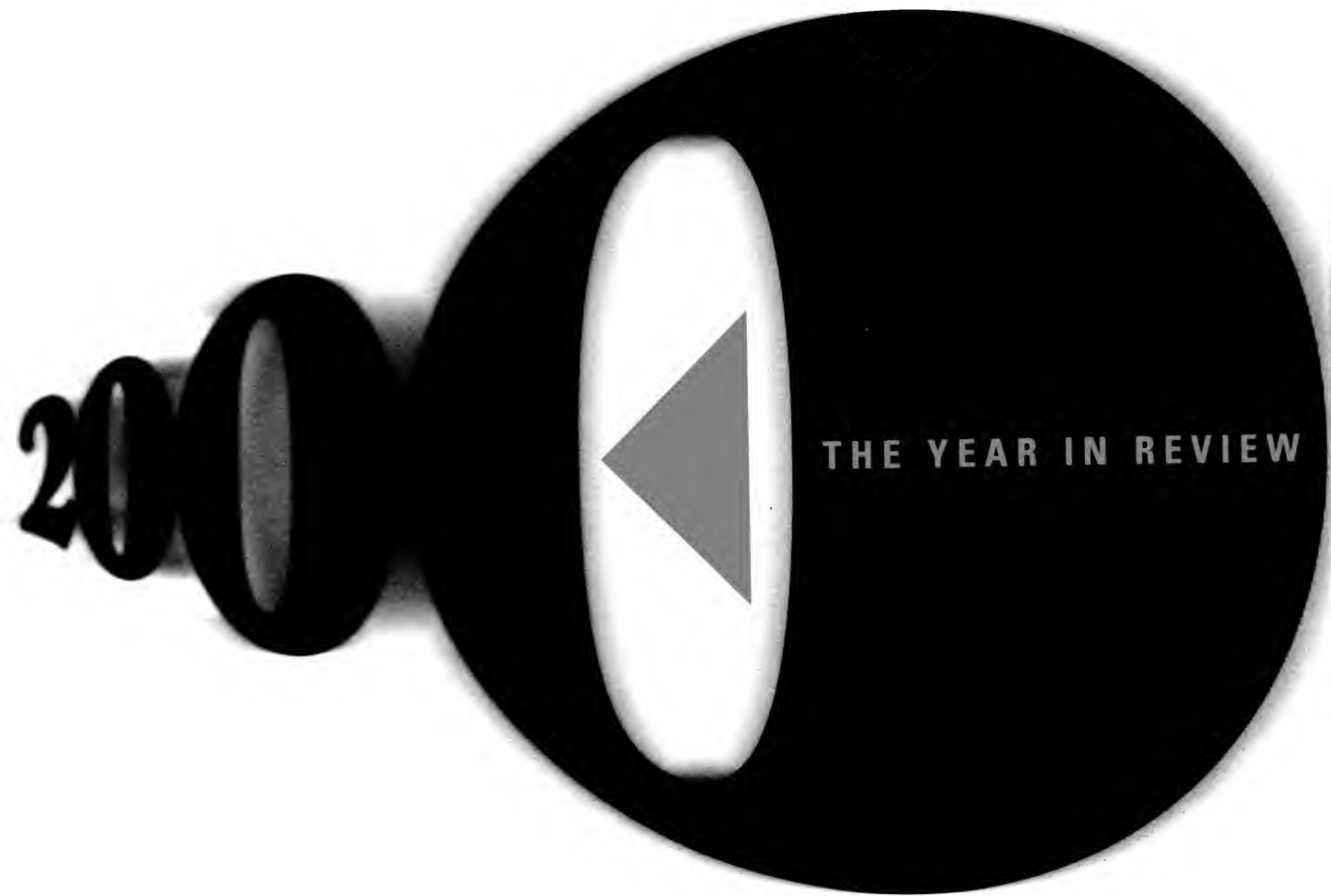
We hope you find this annual report informative on our progress and growth in serving Montana businesses. As always, we welcome your comments. As Montana's largest workers' compensation carrier, and as the state's guaranteed insurer, we will continue to work hard to earn your confidence. We appreciate your support.



**Carl Swanson**, President/CEO



**Jim Brouelette**, Chairman



THE YEAR IN REVIEW

Not so many years ago, Montana's workers' compensation system was in disarray. Few believed that a comprehensive, lasting solution could be found. As we enter the 21st Century, however, the state's system is strong, offering many options and choices for employers and their employees.

MSF is also strong, providing superior workers' compensation products and services to many thousands of our state's business owners. The State Fund is fulfilling its responsibilities as the guaranteed market while remaining financially strong and self-sufficient to ensure a stable market option for employers.

This annual report for fiscal year 2000 highlights MSF's activities of the past year and details efforts toward achieving key initiatives. We're proud of our accomplishments and look forward to new challenges as we strive for excellence in service delivery to our customers.

**OVERALL RATES UNCHANGED FOR 2000** - In May 2000, MSF's Board determined that there would be no change in overall workers' compensation rates for customers renewing after July 1, 2000. This was the seventh year in a row that manual rates for MSF policyholders declined or remained the same.

The Board made its decision based on the analysis of MSF's financial needs by the independent actuarial firm, Tillinghast-Towers Perrin.

Even though the overall rate adjustment was zero, some individual policyholders may have seen a change in their premium rates. Depending on the industry code and unique risk experience, some employers actually saw their workers' compensation premium rates increase or decrease by varying amounts. Increases occur in job classifications where losses have been higher than average. However, a majority of policyholders saw their rates remain approximately at last year's levels.

**DIVIDENDS TO CUSTOMERS** - For the second consecutive year, MSF's Board of Directors declared a dividend to Montana business owners. Based on an independent consulting actuary's analysis of MSF's surplus adequacy, the Board declared a \$7 million dividend to 16,400 qualifying workers' compensation policyholders for the policy year of July 1997 through June 1998.

Combined with last year's \$10 million dividend, \$17 million has been returned to employers by MSF in the past two years. Dividends are the result of several factors. Effective workplace safety programs, financial strength, efficient claims management and managed care programs, early reporting of injuries, early return to work, and aggressive fraud prevention all play a major role.

Although annual dividends cannot be guaranteed, the State Fund can return – in the form of dividends to its customers –

## **COUNCIL FOCUSES ON CUSTOMER NEEDS**

*When Montana State Fund began partnering with independent insurance agents in 1997, an Agent Advisory Council was established. The purpose of the Council is to provide a means for direct communication and discussion between MSF and its insurance agency partners on issues critical to the success of the partnership and to the service we provide to customers.*

*The Council is comprised of seven members from various agencies across the state. They are:*

- Derek Grewatz, Western States Insurance, Missoula
- Rich Hall, Streeter Brothers Insurance, Billings
- Chris Hoiness, Hoiness LaBar Insurance, Billings
- Rene LeVeaux, InsureTech, Billings
- Peter McGee, First West Insurance, Bozeman
- Lynn St. Pierre, Talbot Insurance, Kalispell
- Chuck Turner, Montana International Insurance, Shelby

*Chris Hoiness, Senior Vice President of Hoiness LaBar Insurance in Billings, serves as a member of the Agent Advisory Council.*

*"This is one of the most effective committees I've ever served on," says Chris. "It is a very effective method for producers to get together with State Fund staff and discuss issues and solutions. We focus on the needs of both producers and the State Fund in order to strengthen our partnership. We also address issues of importance to our customers and find ways to provide better customer service."*

*Chris believes that the partnership between the State Fund and independent agents across Montana was one of the most important things MSF has ever done. "Local agents bring significant value to their customers," he explains. "They know their customers' business needs and can anticipate problems and issues before they occur."*



**CHRIS HOINESS**

Senior Vice President  
Hoiness LaBar Insurance, Billings

surplus beyond what is deemed necessary for prudent business operations. Continued strong performance and actuarial projections suggest that there is a strong probability for future dividends to State Fund policyholders.

In addition to the general dividends declared by MSF, \$1.6 million has been returned to policyholders over the last four years through group and association retrospective and retention plans, for a total of \$18.6 million returned to customers.

**REDESIGN PROJECT** - This past year, MSF undertook a significant and exciting organizational redesign project designed to develop an insurance company that is focused exclusively on our customers' needs, wants and expectations. Employees developed this project with significant customer input, and the new organizational structure was implemented in early November.

The redesign project has created an open environment of multi-functional teams whose sole commitment is to provide exemplary service to their select group of customers and their employees. Additionally, as part of the redesign, we have significantly increased the number of our safety management consultants and medical case managers to further strengthen and enhance our safety and claim management efforts.

To learn more about this landmark project, see page 10.

**INVESTMENT REFERENDUM APPROVED** - In November, Montana voters approved CA-34, a legislative referendum to change the state constitution to allow investment of no more than 25% of MSF's invested assets in private corporate stock. The Legislature passed a bill in the 1999 Legislative Session allowing this referendum to go before a vote of the people.

The approved constitutional change will provide for diversification of MSF's investment portfolio and increased returns over the long run. MSF's assets will continue to be managed by the Montana Board of Investments. Before the referendum passed, investment of MSF assets was limited to fixed securities such as U.S. Treasury bills and government and corporate bonds.

The measure requires that the Board of Investments manage investment of assets in corporate stock in the same manner that a prudent expert acting in a fiduciary capacity and familiar with the circumstances would use in the conduct of a private insurance operation.

Because of this referendum, the State Fund will now have the ability to diversify its investments, thereby reducing overall risk in its investment portfolio.

**AGENCY PARTNERSHIP ENJOYS SUCCESS** - MSF's partnership with independent insurance agents statewide continued to grow this past year. Of the \$70.7 million in earned premium,



*"My most important asset is my employees," says Ted Williams, owner of Ted's Western Appliance, Inc. in Livingston. "I believe that a strong training program for employees is crucial because it helps them do their jobs efficiently and reduces the possibility of accidents."*

*Ted has also created an innovative return to work program for one of his employees who was injured on the job. "I have invested a great deal in my employees and I need and want them at my business. My long-term employees bring a great deal of expertise and are very valuable to me."*

*A member of the GRIP Program, created by Montana State Fund in partnership with the Montana Building Industry Association, Ted makes sure his employees go to every available safety class. "When employers take care of their employees, they see results," he says. Two years ago, Ted won a Small Business of the Year Award from the American Legion for his innovative approach to working with veterans.*



**TED WILLIAMS**  
Owner  
Ted's Western Appliance, Livingston

# 2000: YEAR IN REVIEW

THE YEAR IN REVIEW  
MONTANA STATE FUND ANNUAL REPORT 2000

7

our agent partners now represent over \$32 million or approximately 44% of the company's total premium.

To promote the partnership with independent agents, MSF continued with its cooperative advertising program and established an insurance producer directory with agency hot links on its Internet site.

**CLAIM MANAGEMENT SUCCESS** - Successful claim management has always been a chief priority for MSF. Statistics show that between 1991, when the new Montana State Fund was created, and 1998, our claim management staff has closed 98% of all claims.

**SAFETY EFFORTS** - Montana State Fund is committed to assisting the state's employers in reducing and eliminating workplace injuries. During fiscal year 2000, our Safety Management staff focused their services on specific accounts and measured the performance of those accounts. The result of their efforts was a reduction in injuries and lost dollars for the businesses that received focused service. These benchmarked accounts realized a reduction in losses of \$5,494,057, or a 46% reduction in losses.

MSF has increased its staff of dedicated Safety Management Consultants to assist our policyholders in eliminating workplace hazards and injuries. In the coming year, we will provide workshops

for our policyholders in several locations around the state. Through training provided by our professional staff, our goal is to make Montana employers among the safest in the country.

**FRAUD EFFORTS CONTINUE** - Since anti-fraud legislation was passed in 1993, MSF has sustained an aggressive and successful fight against all types of fraudulent activities. In the past seven years, our efforts have saved our customers more than \$11 million through investigative and recovery programs.

Anyone with information about possible workers' compensation fraud in their communities can contact MSF's Fraud Hotline at 1-888-MT CRIME or 1-888-682-7463.



**PAT SOUTHWORTH**

President  
Allied Steel, Lewistown

*As President of a large company specializing in structural steel fabrication and erection, Pat Southworth knows the value of safety – both at company headquarters and at construction sites throughout nine states. Allied Steel of Lewistown tackles a variety of projects that range from large mining complexes to high-rise office buildings.*

*"Our business is inherently risky and the safety of our employees is our number one concern," says Pat. Allied Steel not only has a strong, written safety program, but also benefits from the services of in-house safety inspectors and outside safety consultants. They also make use of the latest technologies to promote safety. And all of this hard work pays off. "Allied Steel has one of the best safety records in the steel fabrication business nationally," he notes.*

*With 100 employees, a solid workers' compensation package from the State Fund is a necessity for Allied Steel. "There are many things we look for in our workers' compensation carrier, including competitive rates, excellent return-to-work policies, and a good fraud unit," Pat explains. "But the number one issue is service. The other things are important, but we look for service first."*

# 2000: YEAR IN REVIEW





**DATA WAREHOUSE PROJECT** - This past year advanced planning and design activities were completed on our strategic data warehouse initiative. The State Fund established a project team composed of experts from all departments to determine customer needs and ensure that the system design addresses those requirements.

MSF leveraged its investment in the PowerComp™ system by designing a new web-based tool, Knowledge Analyzer for Insurance, that takes advantage of our extensive business database to deliver knowledge products to our internal and

external customers. By incorporating cutting-edge Internet and Intranet technology, MSF is putting decision support tools into the hands of its employees, key customers, and agent partners. When using these proven technologies, knowledge users have access to cost-effective, and familiar user-friendly systems.

At project completion in early FY02, information and data for real-time decision making will be readily available.

# SPECIAL SECTION: REDESIGNING MONTANA STATE FUND

businesses  
the employee safety

With better  
customer service  
features

MONTANA  
STATEFUND  
APPROVED

## MONTANA STATEFUND 2000 upgrade

**IN 2000**, Montana State Fund undertook a major redesign process unparalleled in its history. Preparing for the market challenges of a new century, MSF restructured its entire organization around the needs, wants and expectations of its customers.

The old structure had served well for many years but was no longer able to respond quickly to market demands and customer needs. Consistent with the traditional organizational model of top-to-bottom "silo" departments, MSF faced a number of challenges:

- *Overly complex processes and service delivery structures*
- *Top-down decision making rather than at the service delivery level*
- *Task-oriented micromanagement rather than results-oriented macromanagement*

MSF recognized that with the rapidly changing workers' compensation market, customer needs must become the drivers for change and growth. Embracing this concept, a new model for MSF emerged. To remain a major

player in Montana's workers' compensation market, the organization must be customer-focused, flexible, and fast to respond to market demands, consistently providing superior products and customer service.

In early 2000, MSF obtained the services of a nationally recognized insurance organizational change consultant. A design team of highly talented, middle management and technical staff was then selected to drive the project.

Beginning their work in late February, the design team visited customers and their employees, agency partners, medical providers and other stakeholders. Using this customer input as a foundation, the team began examining every work process and function within the organization, intent on identifying inefficiencies and service delivery roadblocks.

Utilizing the assistance and expertise of MSF employees in every area, the design team's approach was highly participative. Twenty-three analysis teams were formed and drew on the extensive experience and knowledge resident in the company. Each workflow and work process was painstakingly mapped,

- **Now featuring a stronger staff in Safety Management, Medical Case Management and Quality Assurance**

then re-mapped to create a process that eliminated inefficiencies and redundancies. Opportunities to adopt standard insurance practices were identified to make MSF products and services more consistent with the private insurance industry market.

Finally, the design team looked at the organizational structure itself to determine if a different structure could more efficiently provide the service levels customers expect and deserve.

In mid-June, the design team presented its proposal for change – a comprehensive list of recommendations covering every aspect of MSF operations.

Implementation of the recommendations began almost immediately after Board approval. An implementation team of design team members and other key staff began a four-month process that would literally transform MSF from top to bottom.

November 8, 2000, was the “go-live” date for the new company, which greatly differs from the old MSF and features numerous improvements and enhancements. In fact, the entire structure has been changed to accommodate the requirements of a progressive insurance provider. Key components of the new organization include:

- *Six multi-functional teams that serve a specific group of customers and their employees. Each team provides all account management and claims management services to a policyholder and their injured employees. This type of team environment grows business profitably, achieves high customer retention levels, and, through competitive pricing and superior service delivery, creates a results-based operating environment focused on customers' needs, wants and expectations.*
- *Many processes that make MSF an organization that is easier to do business with and is comparable in virtually all aspects to private carriers.*
- *Employees with increased decision-making authority in order to be more responsive to customer needs and expectations. This has also been shown to increase employee job satisfaction and responsibility.*
- *Significantly flattened organizational structure with the number of management/supervisory positions reduced from 40 to 24.*
- *An environment of “ownership” where everyone in the company can view themselves as an owner of a business.*
- *A new, open environment within the State Fund building with no walls or individual offices. This encourages teamwork and active collaboration, all focused on customer service and satisfaction.*

- *Significantly strengthened staff in Safety Management, Medical Case Management, and Quality Assurance to improve customer service.*

Significant efficiencies were gained as a result of redesign. There were no layoffs, but a reduction of 6.5 FTEs was realized. As the redesign process continues and is further refined, additional staff reductions through attrition are likely.

Even though MSF has “gone-live” with its new organizational structure, implementation and refinement of key initiatives will continue throughout the coming year. Customers, agent partners and other stakeholders will begin noticing changes and enhancements immediately, with additional improvements scheduled for implementation in the months ahead.

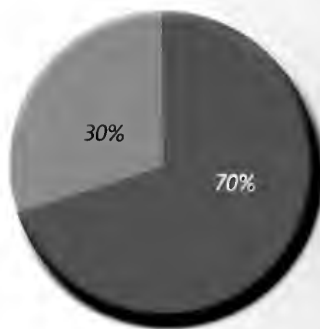
MSF is committed to helping our state’s business owners and their employees achieve success. By redesigning itself to better meet employers’ needs, the State Fund ensures that businesses of all sizes will continue to benefit from a strong MSF many years into the future.

# FINANCIALS

## MONTANA STATE FUND STATUTORY STATEMENT OF OPERATIONS

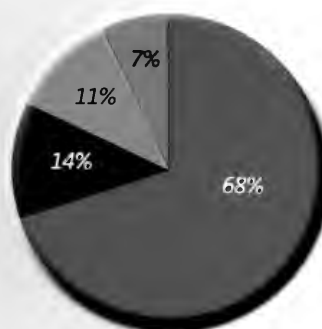
YEARS ENDED JUNE 30,	2000 <i>in thousands</i>	1999 <i>in thousands</i>
Net Premium Earned	\$70,657	\$70,170
Losses Incurred	65,328	43,122
Loss Expenses Incurred	13,057	13,938
Underwriting Expenses Incurred	10,531	8,580
Net Underwriting Gain/(Loss)	(18,259)	4,530
Net Investment Income Earned	30,069	29,873
Net Realized Capital Gains/Losses	340	579
Premium Balances Charged Off	147	(490)
Other Income	50	41
Net Income before Dividends	12,347	34,533
Policyholder Dividends	(6,951)	(9,992)
Net Income after Dividends	5,396	24,541
Surplus at June 30 Prior Year	133,520	119,435
Aggregate Write In for Gains or Losses in Surplus	(38)	5
Change in Nonadmitted Assets	(109)	(461)
Operating Transfer Out	-	(10,000)
Surplus as Regards Policyholders June 30 Current Year	\$138,768	\$133,520

### FY00 REVENUES



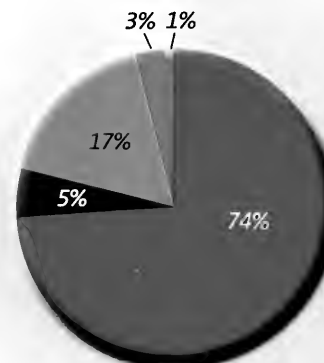
Investment, Realized Gains/Losses, and Other Income  
Premiums

### FY00 EXPENSES AND TRANSFERS



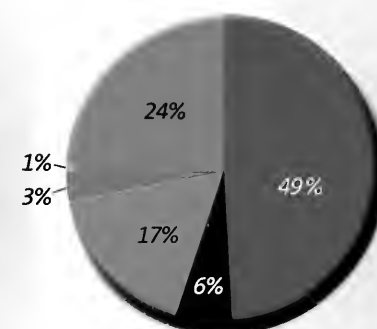
Losses Incurred  
Underwriting Expenses Incurred  
Loss Expenses Incurred  
Policyholder Dividends

### FY00 ASSETS



Bonds  
Other Investments (Collateral Securities on Loan)  
Equipment, Interest Receivable & Other Assets  
Cash & Short Term Investments  
Premium Receivable

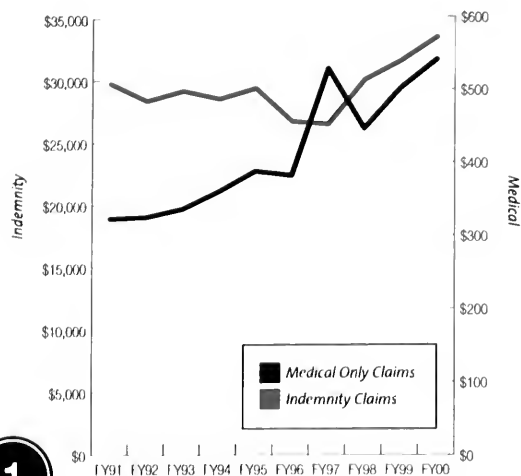
### FY00 LIABILITIES AND SURPLUS



Losses Incurred  
Payables for Securities of Loan  
Other Liabilities  
Loss Adjustment Expenses  
Deferred Revenue  
Policyholders' Surplus

## MONTANA STATE FUND STATUTORY BALANCE SHEET

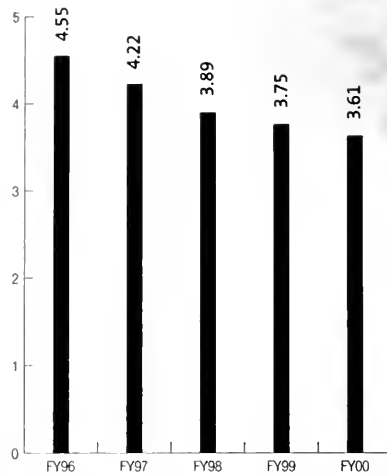
YEARS ENDED JUNE 30,	2000 <i>in thousands</i>	1999 <i>in thousands</i>
<b>Assets:</b>		
Investments:		
Bonds	\$420,103	\$420,347
Cash and Short-Term Investments	29,953	25,896
Other Investments - collateral securities on loan	100,180	91,728
<b>Total Investments</b>	<b>\$550,236</b>	<b>\$537,971</b>
Premium Receivable (net)	14,553	14,601
Equipment - net	863	671
Interest Receivables	6,989	6,494
Other Assets	491	1,797
<b>Total Assets:</b>	<b>\$573,133</b>	<b>\$561,534</b>
<b>Liabilities:</b>		
Losses Incurred	280,085	268,111
Loss Adjustment Expense	34,815	35,389
Payables for Securities on Loan	100,180	91,728
Deferred Revenue	14,593	19,315
Other Liabilities	4,692	13,471
<b>Total Liabilities:</b>	<b>\$434,365</b>	<b>\$428,014</b>
<b>Policyholders' Surplus</b>	<b>138,768</b>	<b>133,520</b>
	<b>\$573,133</b>	<b>\$561,534</b>



1

#### CLAIM SEVERITY TREND

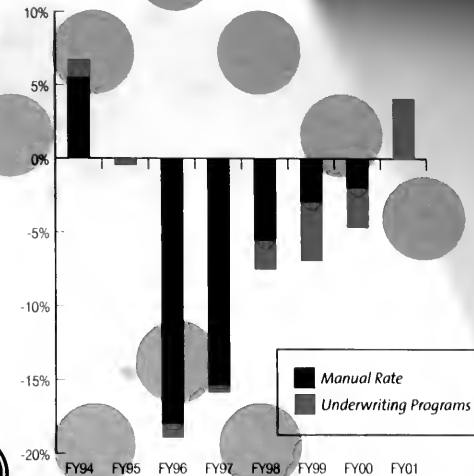
Fiscal year 2000 saw a 6% increase in indemnity claim costs and an 8% increase in medical only claim costs. Claim severity is a measure of the average cost of indemnity and medical claims. The severity of indemnity claims is driven by wage growth over time while the medical costs are driven by medical inflation trends.



2

#### CLAIMS PER \$1 MILLION IN PAYROLL (ADJUSTED FOR INFLATION)

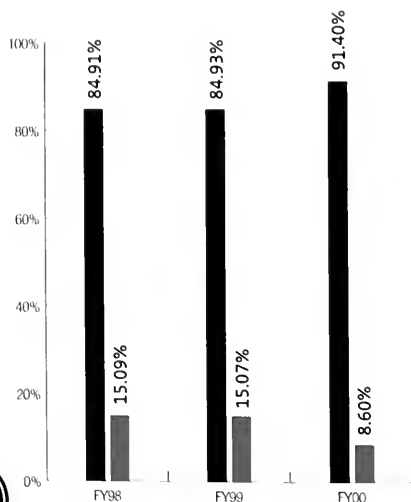
Although claim frequency dropped approximately 4% from the prior year, national trends indicate that claim number drops are stabilizing. With the increase in claim severity, this may indicate a scenario for increased premiums to policyholders.



3

#### ANNUAL RATE CHANGE (IN PERCENTAGE POINTS)

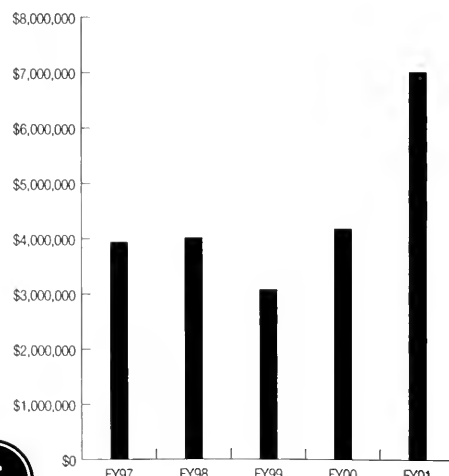
State Fund manual rates did not change for fiscal year 2000. This was the seventh year in a row that manual rates decreased or stayed the same.



4

#### ACCIDENT-FREE EMPLOYERS

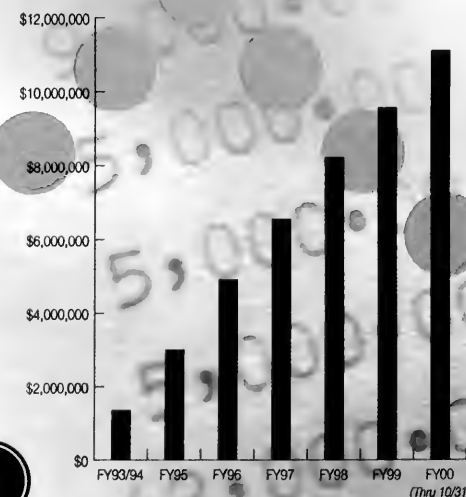
Policy year 2000 showed a significant increase in the number of accident-free employers, a statistic that can be a major factor in general dividend returns.



5

#### NEW PREMIUM WRITTEN (\$ IN FIRST 6 MONTHS OF FISCAL YEAR)

New written premium increased significantly between the first six months of fiscal year 2000 and fiscal year 2001. This trend may indicate a tightening workers' compensation market in Montana.



6

#### FRAUD SAVINGS (IN \$)

Montana State Fund's successful fraud prevention and recovery program has saved policyholders over \$11 million since its inception in 1993.

Robert F. Conger  
FCAS, MAAA, FCIA  
Principal

950 East Paces Ferry Road  
Atlanta, GA 30326-1119  
404 365-1634  
Fax: 404 365-1167

## *Tillinghast - Towers Perrin*

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December 27, 2000

To The Board of Directors of the Montana State Fund:

Tillinghast - Towers Perrin was engaged by the Montana State Fund (the Fund) to estimate the unpaid loss and loss adjustment expenses as of June 30, 2000, for the Fund's workers compensation exposures. Our examination included the performance of independent projections of the Fund's loss and loss expense liabilities and such other tests and procedures as we considered necessary in the circumstances. We relied on Fund personnel as to the completeness and accuracy of the data.

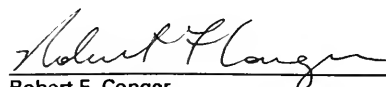
Our estimated loss and loss adjustment expense liability as of June 30, 2000, is \$310.9 million, undiscounted, and net of reinsurance recoverables. The Fund has recorded a provision of \$314.9 million on its June 30, 2000 balance sheet for unpaid loss and loss adjustment expense.

In our opinion, the amounts recorded in the balance sheet as reserves for estimated loss and loss adjustment expense liabilities: (1) Are consistent with amounts calculated in accordance with commonly accepted actuarial methods and are fairly stated on an ultimate undiscounted basis in accordance with sound actuarial principles; (2) Are consistent with amounts based upon actuarial assumptions which are reasonable given the coverages provided; and (3) Make good and sufficient provision in the aggregate for all unpaid loss and loss adjustment expense obligations.

The Policyholders' Surplus of the Fund as of June 30, 2000, is \$138.8 million, using statutory accounting principles. Current year premium revenue was \$70.7 million. We note that the Policyholders' Surplus level of the Fund is consistent with traditional industry standards. We believe that it is prudent for the Fund to set a long-term goal of maintaining surplus based on industry standards.

### **VARIABILITY**

Loss and loss adjustment expense reserve estimates are subject to considerable uncertainty due to the fact that the ultimate liability for claims is subject to the outcome of events yet to occur. In evaluating whether the reserves make a reasonable provision for unpaid losses and loss expenses, it is necessary to project future loss and loss adjustment expense payments. Actual future losses and loss adjustment expenses will not develop exactly as projected and may, in fact, vary significantly from the projections.



Robert F. Conger  
Fellow, Casualty Actuarial Society  
Member, American Academy of Actuaries



## INDEPENDENT ACCOUNTANTS' REPORT

To the Board of Directors  
Montana State Fund  
Helena, Montana

We have compiled the accompanying statutory balance sheets of the Montana State Fund, a component unit of the State of Montana, as of June 30, 2000 and 1999, and the related statutory statements of operations and changes in statutory policyholders' surplus and statements of statutory cash flows for the years then ended in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The financial statements have been prepared on the statutory basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

A compilation is limited to presenting information that is the representation of the Montana State Fund's management in the form of financial statements. We have not audited or reviewed the accompanying June 30, 2000 and 1999 financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

Management has elected to omit substantially all of the disclosures ordinarily included in financial statements prepared on the statutory tax basis of accounting. If the omitted disclosures were included in the financial statements, they might influence the user's conclusions about the Montana State Fund's financial statements. Accordingly, these financial statements are not designed for those who are not informed about such matters.

*Galusha Higgins & Galusha, PC*

November 19, 2000

# REPORT OF MANAGEMENT

The management of Montana State Fund is responsible for the financial statements and all other information presented in this Annual Report. The financial statements are presented in summary form for our fiscal year 1999-2000 annual report and include amounts based on the best estimates and judgements of management. These financial results are presented on a Statutory Basis, which is consistent with insurance industry financial statement presentation. Galusha, Higgins & Galusha, an independent public accounting firm, compiled the Statutory Statement of Operations and Statutory Balance Sheet presented in this annual report. This presentation differs slightly from the Governmental presentation basis (GASB) that was reviewed and audited by the Legislative Audit Division. A financial reconciliation of surplus between the audited financial statements and the statutory presentation is presented below.

Montana State Fund maintains a system of internal control. The system of internal control is designed to provide reasonable assurance that assets are safeguarded against loss and that transactions are executed and recorded in accordance

with management's authorization. The system of internal control encompasses the organizational structure, selection and training of personnel, communication and enforcement of policies and procedures, and an ongoing audit program. The system of internal control is continually reviewed and evaluated by management.

Montana State Fund engages the Legislative Audit Division to conduct independent audits of the financial statements in accordance with Generally Accepted Auditing Standards (GAAS). Their audits include reviews and tests of controls, transactions, compliance with State Law, and other information they consider necessary to express an opinion on the financial statements and to determine compliance with State Law. For the financial periods ending June 30, 1999 and 2000, Montana State Fund received an unqualified audit opinion from its independent auditors. The audited financial statements and the related audit opinion are issued under separate cover. To obtain a copy of the full financial statements and related notes to the financial statements, please contact the Legislative Audit Division of the State of Montana.

A comparison of Statutory Accounting to Governmental Accounting is shown below:

Years ended June 30,	2000 (in thousands)	1999 (in thousands)
Statutory Accounting Ending Surplus	\$138,768	\$133,520
Reconciling Items:		
Unrealized Loss on Bonds (cumulative effect)	2,586	12,429
Net change in Non Admitted Assets	8,368	10,844
Transfer of Surplus to General Fund	—	10,000
Net Income difference between methods	(11,458)	(22,430)
Governmental Accounting Ending Surplus	\$138,264	\$144,363

# BOARD OF DIRECTORS



**JIM BROUELETTE**  
Chairman, Missoula  
Personnel Management



**HERB LEUPRECHT**  
Vice Chairman, Butte  
Business Owner



**BRIAN DONAHUE**  
Billings  
Insurance Industry



**TOM HORN**  
Cohagen  
Ranching



**LORRETTA LYNDE**  
Helena  
Management  
Consulting



**JACK MORGENSTERN**  
Lewistown  
Business Owner



**WENDY SUSOTT**  
Missoula  
Banking Industry



**CARL SWANSON**  
President/CEO  
Ex-Officio

# EXECUTIVE TEAM



( Left to Right )

**NANCY BUTLER**  
General Counsel

**LAURENCE HUBBARD**  
Vice President Insurance Operations

**LINDA GOAN**  
Special Assistant to the President

**MARK BARRY**  
Vice President Corporate Support

**JILL OLSON**  
Vice President Insurance Operations Support



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Wendt Kochman, Design*

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